

INDIANA COMMUNITY BUSINESS CREDIT CORPORATION

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May 15, 2006

Mr. Philip Satchleben, Executive Director
Legislative Services Agency
200 W. Washington, #302
Indianapolis, IN 46204-2789

Dear Mr. Sachtleben:

In accordance with Section 22 of IC 23-6-4, the Indiana Business Development Credit Corporation Law, the enclosed 2005 Annual Report, along with the following narrative, is respectfully presented as the required Annual Report of Condition of the Indiana Community Business Credit Corporation.

In 2005, the Credit Corporation funded 8 loans for a total of \$4,025,000 of direct loans to Indiana small businesses. This was an integral part of over \$18,795,500 of total small business project financing, including Member Bank participation. Since its inception, the Credit Corporation has provided loans to 104 Indiana Companies for over \$43 million which has been an important part of over \$218 million of total project financing, including Member Bank participation. These Indiana small businesses would not have had access to this capital without the participation of the Credit Corporation.

Membership in the Credit Corporation now stands at 30 Indiana Banks (this number reflects mergers and acquisitions for many banks) with a total fund-pool of \$25.5 million available to loan to Indiana small businesses.

The Indiana Community Business Credit Corporation is proud of its accomplishments in 2005 and looks forward to an even more successful year in 2006. Please feel free to contact our office if you have any questions or need additional information.

Sincerely,

Jean Wojtowicz

Jean Wojtowicz

JW/ds

Enclosure

CC: Al Smith
Lt. Governor Becky Skillman

Professionally
Managed by
Cambridge Capital
Management Corp.

***Indiana Community Business
Credit Corporation***

Financial Statements

Years Ended December 31, 2005 and 2004



Indiana Community Business Credit Corporation

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Independent Auditors' Report

Board of Directors and Shareholders
Indiana Community Business Credit Corporation
Indianapolis, Indiana

We have audited the accompanying balance sheets of **Indiana Community Business Credit Corporation** (the "Company") as of December 31, 2005 and 2004, and the related statements of income, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Indiana Community Business Credit Corporation** as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

BGBC Partners PC

January 27, 2006

Indiana Community Business Credit Corporation

Balance Sheets

December 31, 2005 and 2004

Assets

	2005	2004
Cash and cash equivalents	\$ 515,326	\$ -
Commercial loans	9,603,182	8,639,044
Less allowance for loan losses	(519,884)	(799,234)
Loans, net (Note 2)	9,083,298	7,839,810
Accrued interest receivable	84,609	54,108
Loan fees, net	37,320	30,569
Deferred income taxes (Note 3)	236,070	295,850
Income taxes receivable	161,590	-
	\$ 10,118,213	\$ 8,220,337

Liabilities and Shareholders' Equity

Liabilities:

Notes payable (Note 4)	\$ 6,684,287	\$ 5,005,524
Accrued interest payable	99,269	60,248
Accounts payable and other liabilities	153,692	143,946
Deferred transaction fees	66,225	47,847
Income taxes payable	-	24,100
	7,003,473	5,281,665

Shareholders' equity:

Common stock, no par value; 2,000 shares authorized, 607 shares issued and outstanding	1,301,584	1,301,584
Retained earnings	1,814,206	1,638,138
Treasury stock, 3 shares at cost	(1,050)	(1,050)
	3,114,740	2,938,672
	\$ 10,118,213	\$ 8,220,337

See accompanying notes to financial statements.

Indiana Community Business Credit Corporation

Statements of Income

Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Interest income:		
Interest income on loans	\$ 837,480	\$ 719,301
Variable transaction fees	<u>768,453</u>	<u>630,628</u>
	1,605,933	1,349,929
Interest expense	<u>359,401</u>	<u>248,407</u>
Net interest income	1,246,532	1,101,522
Provision for loan losses (Note 2)	<u>594,002</u>	<u>622,032</u>
Net interest income after provision for loan losses	652,530	479,490
Noninterest expenses:		
Management contract fees	349,293	310,872
Professional fees	<u>57,134</u>	<u>31,390</u>
Total noninterest expense	406,427	342,262
Income before income taxes	246,103	137,228
Income tax expense (Note 3)	<u>70,035</u>	<u>62,209</u>
Net income	\$ 176,068	\$ 75,019

See accompanying notes to financial statements.

Indiana Community Business Credit Corporation

Statements of Changes in Shareholders' Equity

Years Ended December 31, 2005 and 2004

	Common Stock		Retained Earnings	Treasury Stock		Total
	Shares	Amount		Shares	Amount	
Balance , January 1, 2004	597	\$ 1,254,404	\$ 1,563,119	3	\$ (1,050)	\$ 2,816,473
Sale of common stock	10	47,180	-	-	-	47,180
Net income	-	-	75,019	-	-	75,019
Balance , December 31, 2004	607	1,301,584	1,638,138	3	(1,050)	2,938,672
Net income	-	-	176,068	-	-	176,068
Balance , December 31, 2005	607	\$ 1,301,584	\$ 1,814,206	3	\$ (1,050)	\$ 3,114,740

See accompanying notes to financial statements.

Indiana Community Business Credit Corporation

Statements of Cash Flows

Years Ended December 31, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Net income	\$ 176,068	\$ 75,019
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	59,780	(107,240)
Provision for loan losses	594,002	622,032
Changes in assets and liabilities:		
Accrued interest receivable	(30,501)	(3,147)
Income taxes receivable (payable)	(185,690)	118,337
Loan fees	(6,751)	(3,776)
Customer deposits	-	(25,000)
Deferred transaction income	18,378	(3,014)
Accrued interest payable	39,021	1,365
Accounts payable and other liabilities	9,746	38,580
Net cash provided by operating activities	674,053	713,156
Cash flows from investing activities:		
Loans made to customers	(4,960,000)	(4,014,482)
Principal collected on loans	3,122,510	3,859,019
Net cash used in investing activities	(1,837,490)	(155,463)
Cash flows from financing activities:		
Proceeds from notes payable	1,998,763	-
Principal payments on notes payable	(320,000)	(620,000)
Proceeds from sale of stock	-	47,180
Net cash provided by (used in) financing activities	1,678,763	(572,820)
Net increase (decrease) in cash and cash equivalents	515,326	(15,127)
Cash and cash equivalents, beginning of year	-	15,127
Cash and cash equivalents, end of year	\$ 515,326	\$ -
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 320,380	\$ 247,042
Cash paid during the year for taxes, net of refunds received	\$ 195,945	\$ 51,112

See accompanying notes to financial statements.

Indiana Community Business Credit Corporation

Notes to Financial Statements

1. Description of Business and Summary of Significant Accounting Policies

Indiana Community Business Credit Corporation ("Company") is owned by Indiana banks ("Member Banks") and provides secondary and supplemental financing to small and medium-sized Indiana companies. All loans require participation by a Member Bank in an amount at least as great as the Company's participation. The Company typically takes a collateral position which is secondary to the Member Bank's position. All of the Company's notes payable, accrued interest payable, and interest expense are to Member Banks. Details are presented in Note 4.

The Company has a contract with Cambridge Capital Management Corp. ("CCMC") to provide staffing services. The contract renews automatically on an annual basis. The staffing services include consulting, loan packaging and servicing, office administration, and general and administrative expenses.

Interest Income

Interest income from loans is recognized when earned unless collection is doubtful. Interest does not accrue on doubtful accounts.

The Company can receive additional income from its borrowers to supplement interest income on loans receivable through provisions in loan agreements for variable transaction fees. The amount of these fees is determined by the timing of payment and the financial success of the borrower.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported therein and the disclosures provided. These estimates and assumptions may change in the future, and future results could differ. The estimate that is most susceptible to change in the near term is the allowance for loan losses.

Allowance for Loan Losses

The allowance for loan losses represents an amount that management estimates is adequate to provide for probable incurred losses in its loan portfolio. The ultimate outcome of this estimate is not known. Due to this uncertainty, it is at least reasonably possible that actual losses may be significantly different. Increases in the allowance are recorded as a provision for loan losses and charged to expense. In arriving at a judgment about the adequacy of the allowance, management considers the risk associated with the loans in its portfolio and the historical loan loss trends of similar business development companies. While management may periodically allocate portions of the allowance to specific loans, the whole allowance is available for any loan charge-offs that occur. A loan is charged off by management as a loss when deemed uncollectible, although collection efforts continue and future recoveries may occur.

Loans are considered impaired if full principal or interest payments are not anticipated. Impaired loans are carried at the present value of expected cash flows discounted at the loan's effective interest rate or at the fair value of the collateral if the loan is collateral-dependent. A portion of the allowance for the loan losses is allocated to impaired loans.

Indiana Community Business Credit Corporation

Notes to Financial Statements

Loan Fees

Loan fees net of direct origination costs are deferred and amortized on a straight-line basis over the life of the loan as a part of interest income.

Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standard No. 109 ("SFAS 109"). SFAS 109 provides for current and deferred tax liabilities and assets using an asset and liability approach. (See Note 3.)

Deferred income taxes arise from temporary differences between income tax and financial reporting and principally relate to the recognition of loan reserves and deferred loan costs and income.

Cash and Cash Equivalents

The statement of cash flows has been prepared using a definition of cash and cash equivalents that includes deposits with original maturity of three months or less.

2. Commercial Loans and Allowance for Loan Losses

The allowance for loan losses consists of the following activity:

	<u>2005</u>	<u>2004</u>
Balance , January 1	\$ (799,234)	\$ (526,023)
Provision for loan losses	(594,002)	(622,032)
Charge-offs	876,350	351,789
Recoveries	(2,998)	(2,968)
Balance , December 31	<u>\$ (519,884)</u>	<u>\$ (799,234)</u>

At December 31, 2005 and 2004, the balance of impaired loans totaled \$706,993 and \$1,346,989, respectively. Interest income recognized from impaired loans during 2005 and 2004 was \$0 and \$52,000, respectively. Of the total allowance for loan losses, \$420,630 and \$538,796 have been allocated to impaired loans at December 31, 2005 and 2004, respectively. The average balance of impaired loans during 2005 and 2004 was \$1,026,991 and \$1,241,805, respectively.

Indiana Community Business Credit Corporation

Notes to Financial Statements

In January 2004, the Company, along with certain related-party entities, purchased certain loans of Mastercraft Memorial, LLC ("Mastercraft") at a discount from a third party. The total purchase price of such loans was \$1,400,000, and the Company's share of this note is \$500,000 and is recorded in commercial loans at December 31, 2005. Although the loans were purchased at a discount, the original terms of the purchased loans are still in effect. The loans are collateralized by substantially all the assets of Mastercraft and are personally guaranteed by the sole owner. The Company and related-party entities' interest is senior to all other creditors of Mastercraft. Mastercraft is currently making weekly payments to the Company and certain related-party entities.

At December 31, 2005 and 2004, the Company had unfunded commitments to originate loans of \$1,868,360 and \$275,000, respectively.

3. Income Taxes

Income tax expense consists of the following:

	<u>2005</u>	<u>2004</u>
Federal:		
Current	\$ 3,072	\$ 133,452
Deferred	<u>48,570</u>	<u>(91,260)</u>
	<u>51,642</u>	<u>42,192</u>
State:		
Current	7,183	35,997
Deferred	<u>11,210</u>	<u>(15,980)</u>
	<u>18,393</u>	<u>20,017</u>
	<u>\$ 70,035</u>	<u>\$ 62,209</u>

Differences in the income tax expense for 2005 and 2004 from the federal statutory rate are primarily attributable to federal graduated tax rates and state income taxes. The components of deferred income tax assets consist of the following at December 31:

	<u>2005</u>	<u>2004</u>
Allowance for loan losses	\$ 220,950	\$ 308,590
Loan fees, net	(15,860)	(12,740)
Carryforward loss	<u>30,980</u>	<u>-</u>
Total deferred income tax assets	<u>\$ 236,070</u>	<u>\$ 295,850</u>

Indiana Community Business Credit Corporation

Notes to Financial Statements

At December 31, 2005, the Company had federal and state net operating loss carryforwards, which expire through the year 2025, of approximately \$73,000.

4. Notes Payable

Notes payable consist of the following at December 31:

	<u>2005</u>	<u>2004</u>
Unsecured revolving credit notes with Member Banks. The interest rate is variable based on the Indiana Base Rate (7.25% and 5.25% at December 31, 2005 and 2004, respectively) and is payable semiannually. Upon written notice, a credit line may be terminated by either the Company or the Member Bank and would be due within three years after termination. Unused lines of credit were approximately \$21,886,000 and \$21,031,000 at December 31, 2005 and 2004, respectively.	\$ 6,684,287	\$ 4,685,524
Unsecured revolving demand credit note with a Member Bank. The interest rate is variable based on the JPMorgan Chase Bank prime rate (7.25% and 5.25% at December 31, 2005 and 2004, respectively) and is payable monthly. The unused portion of the line of credit was \$3,000,000 and \$2,680,000 at December 31, 2005 and 2004, respectively.	-	320,000
	<u>\$ 6,684,287</u>	<u>\$ 5,005,524</u>